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A proactive approach to long-term care planning can pay off for clients
By Rob Burgess
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Long-term health care costs can drain resources in even the most carefully planned retirements.

Advisors who work with clients preparing for their post-career lives say starting the conversations early will help mitigate these surprises. But not all remedies are created equal. Some clients may be able to afford long-term care — including home health aides, residential community care and more — out of pocket. For everyone else, some form of insurance could be the answer.

Start the conversation now
Justin Warren, vice president of financial planning at Pillar Financial Group in Fresno, California, said he has visited care facilities for both clients and his family members, "and this season of retirement needs to be addressed long beforehand."

"This is a normal conversation that is a part of our planning process," he said. "I let them know even if we don't implement anything today, having the conversation is a starting point."

The issue of long-term care costs in retirement is a personal one for Marguerita M. Cheng, CEO at Blue Ocean Global Wealth in Gaithersburg, Maryland. Her father was diagnosed with Parkinson's disease right before she gave birth to her third child. She said this topic can be a scary one for clients who would rather not consider it all.

"It's not about nagging people, but nudging them to take meaningful action," she said. "Give your clients little tasks. It [isn't] meant to be scary."

Recently David W. Demming, founder and president of Demming Financial Services in Aurora, Ohio, attended the funeral of a longtime client who had Parkinson's. Demming had helped the client select group long-term disability coverage, "which insulated both her and her husband from significant expense." The husband also has Parkinson's and resides in an assisted living facility that is paid for through the insurance.

"Retirement planning means a complete review of retirement needs, including health care and end-of-life planning," Demming said. "Even without coverage that should be part of the conversation."

Michael Carbone, a financial advisor with Eppolito Financial Strategies at Raymond James in Chelmsford, Massachusetts, said he also runs multiple scenarios to show clients how a need for custodial care can affect outcomes.

"That way if a client cannot afford or is uninsurable for long-term care insurance, they can weigh the odds of needing care against how certain they'd like to be about meeting their goals," he said. "It also allows them to better grasp the costs of self-insurance, generally in the form of delaying retirement."

The reality is, Carbone said, it's more likely than not that at least one spouse will need care.

"The uncertainty surrounds the question of for how long, and whether the other spouse has longevity," he said. "I've personally dealt with this in my family, so I'll often share my experience to humanize the topic."

Deciding on the type of insurance

Tony Matheson, founder and wealth advisor at Slalom Wealth Management in Sacramento, California, specializes in working with clients over the age of 50 to prepare for retirement. When modeling cash flow in retirement plans, Matheson said he always demonstrates how various scenarios involving health care expenses will impact retirement plan outcomes. For example, one scenario will be a base case that models the costs of Medicare Parts A and B and pays minimum deductibles. Another could demonstrate how an individual's declining health might increase out-of-pocket costs and impact cash flow over time . A third example shows how a one-time catastrophic event that leads to a spouse requiring long-term care could affect the retirement plan.

"I commonly run an analysis to help clients determine whether they'd like to purchase long-term care insurance or if they'd prefer to self-insure using retirement funds," he said.

Matheson said the decision to purchase this insurance is typically not an all-or-nothing proposition.

"Clients usually determine how much risk they'd like to transfer to insurance versus how much they'd like to take on themselves," he said.

John R. Power, a CFP with Power Plans in Walpole, Massachusetts, said while each case is different, he always includes consideration of long-term care costs with client plans. Some clients, usually those with more than $2 million in invested assets, have enough to self-fund. Others have veterans' benefits that provide some coverage.

"I try to have every client have a plan for what they will do if they face a need for support," he said. "Spouses often provide a great deal of assistance, and assisted living is a reasonably affordable solution, but that isn't custodial or real medical care."

The 'use it or lose it' problem

Carbone said long-term care insurance by itself is often incredibly expensive, as "the insurance industry mispriced this risk decades ago so we're now seeing higher premiums and premium increases for existing policyholders."

Power said clients oftentimes don't like the idea of paying a high cost for long-term care insurance they may not end up using.

"Buying a life insurance policy with a long-term care rider often obviates that objection," he said. "The best I can do is offer an identification of the risk and ways they can prepare and mitigate. Many choose to just accept the risk and avoid the discussion because of the cost or unpleasantness of the alternatives."

Michael L. Rosenberg, managing director at Diversified Investment Strategies in Flohram Park, New Jersey, said his firm offers clients several options. The first is a hybrid life insurance policy for healthy individuals, with a long-term care rider. For those who cannot afford a life insurance policy, a long-term care annuity might be a viable option. In this scenario, a client might give an insurance company, for example, $100,000, and the long-term care benefit might be $300,000.

As the annuity grows, the long-term care benefit grows as well.

"This option is also suitable for individuals whose health may make it difficult to get a favorable rating for a life insurance policy," he said.

Long-term care is one the largest risk factors for running out of money in retirement, said Emmanuel K. Eliason, president and CEO of Eliason Wealth Management in Centennial, Colorado. He said the concept of "use it or lose it" when it comes to long-term care insurance is the biggest downside, besides increasing cost. That's why he said he recommends purchasing it through an employer, as it's often cheaper than doing so privately. Another viable alternative to a traditional long-term care policy is to use life insurance with accelerated living benefits riders for long-term care.

"Either way, consumers should properly review the terms of their policies and shop around for alternative solutions that could be more cost-effective and efficient in terms of their overall financial plan," he said.